Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Auditor's Reports and Financial Statements

September 30, 2013 and 2012

BKD LLP

CPAs & Advisors

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
September 30, 2013 and 2012

Contents

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Independent Auditor's Report

Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
New Iberia, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana, (d/b/a Iberia Medical Center) (the Medical Center), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana, (d/b/a Iberia Medical Center) as of September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 16* to the financial statements, in 2013, the Medical Center changed its method of accounting for certain items previously reported as assets and liabilities and to recognize certain items that were previously reported as assets and liabilities as expenses and revenues in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital Service District No. 1's, a component unit of Iberia Parish, State of Louisiana, (d/b/a Iberia Medical Center) internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
February 27, 2014

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) provides an overview of the Medical Center's financial activities for the years ended September 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Medical Center.

Financial Highlights

- Cash and investments increased by $1,671,000 or 11.1% in 2013 compared to 2012 and decreased by $1,745,000 or 10.4% in 2012 compared to 2011.
- The Medical Center's net position increased in each of the past two years with a $2,298,000 or 7.9% increase in 2013 and a $2,931,000 or 11.2% in 2012.
- The Medical Center reported operating income in 2013 of $2,130,000 and 2012 of $2,987,000, a decrease of $856,000 or 28.7%. The operating income in 2012 increased by $331,000 or 12.4% compared to the operating income reported in 2011.
- Net nonoperating income increased by $231,000 in 2013 compared to 2012 and increased $412,000 compared to 2011.

Using This Annual Report

The Medical Center's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Medical Center is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is, "Is the entity as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in it. The Medical Center's total net position, the difference between assets and liabilities, is one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Medical Center.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from three defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net position increased by $2,298,000 (7.9%) in 2013 over 2012 and by $2,931,000 (11.2%) in 2012 over 2011, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012 (Restated – *Note 16*)	2011 (Restated – *Note 16*)
Assets			
Patient accounts receivable, net	$ 7,202,426	$ 6,450,880	$ 6,673,051
Other current assets	19,335,760	15,220,082	14,458,814
Capital assets, net	27,896,741	28,338,161	27,420,098
Other noncurrent assets	1,004,947	3,104,796	5,335,666
Total assets	$ 55,439,874	$ 53,113,919	$ 53,887,629
Liabilities			
Long-term debt	$ 13,631,346	$ 13,321,419	$ 15,877,123
Other current and noncurrent liabilities	10,299,791	10,581,417	11,730,282
Total liabilities	23,931,137	23,902,836	27,607,405
Net Position			
Net investment in capital assets	15,160,955	15,092,641	13,071,136
Restricted expendable	24,328	2,990,068	2,989,153
Unrestricted	16,323,454	11,128,374	10,219,935
Total net position	31,508,737	29,211,083	26,280,224
Total liabilities and net position	$ 55,439,874	$ 53,113,919	$ 53,887,629

Significant changes in the Medical Center's assets in 2013 are the increase in current assets and decrease in noncurrent assets. The increase in current assets and decrease in noncurrent assets results primarily from the refinancing of the Series 2005C, 2005D, 2005E, 2008, 2009A and 2009B bonds with the 2013A and 2013B bonds, which include fewer restrictions on funds to meet debt service requirements.

The most significant change in the Medical Center's financial position in 2012 was the decrease in noncurrent assets and long-term debt for scheduled bond payments.

Operating Results and Changes in the Medical Center's Net Position

In 2013, the Medical Center's net position increased by $2,298,000 or 7.9%, as shown in Table 2. This increase is made up of several different components and represents a decline of 21.6% compared with the increase in net position for 2012 of $2,931,000. The Medical Center's change in net position increased from $2,197,000 in 2011 to $2,931,000 in 2012, an increase of 33.4%.

Table 2: Operating Results and Changes in Net Position

	2013	2012 (Restated – *Note 16*)	2011 (Restated – *Note 16*)
Operating Revenues			
Net patient service revenue	$ 53,512,529	$ 51,194,257	$ 55,593,902
Other operating revenues	5,977,449	6,976,682	4,375,149
Total operating revenues	59,489,978	58,170,939	59,969,051
Operating Expenses			
Salaries, wages and employee benefits	29,912,963	30,326,081	31,515,673
Supplies, professional fees and purchased services	24,646,330	22,428,383	23,095,313
Depreciation and amortization	2,625,834	2,440,857	2,708,394
Other operating expenses	174,043	(11,678)	(7,000)
Total operating expenses	57,359,170	55,183,643	57,312,380
Operating Income	2,130,808	2,987,296	2,656,671
Nonoperating Revenues (Expenses)			
Interest income	59,393	52,276	65,377
Interest expense	(539,568)	(671,645)	(752,783)
Legal settlement	575,000	329,500	-
Income from investments in joint ventures	152,053	218,935	204,539
Bond issue costs	(86,950)	-	-
Total nonoperating revenues (expenses)	159,928	(70,934)	(482,867)
Excess of Revenues Over Expenses	2,290,736	2,916,362	2,173,804
Capital Grants and Gifts	6,918	14,497	23,547
Increase in Net Position	$ 2,297,654	$ 2,930,859	$ 2,197,351

Operating Income

The first component of the overall change in the Medical Center's net position is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Medical Center has reported an operating gain. This is consistent with the Medical Center's management's goal of operating the Medical Center in an efficient manner.

The operating income decreased in 2013 by $856,000 or 28.7% as compared to 2012. The primary components of the decreased operating income are shown below:

- An increase in net patient service revenue of $2,318,000 or 4.5%
- A decrease in other operating revenues of $999,000 or 14.3%
- A decrease in salaries, wages and employee benefits of $413,000 or 1.4%
- An increase in supplies and other costs of $2,218,000 or 9.9%

Net patient service revenue increased partially due to increases in patient activity, The Medical Center's admissions increased in 2013, with total admissions in 2013 of 3,887 compared to 3,649 in 2012, an increase of 6.5%.

The other operating revenue decrease consists primarily of electronic health record funding awarded from Medicare and Medicaid and payments awarded under Louisiana Upper Payment Limit Programs (UPL). Funds awarded from Medicare and Medicaid during 2013 totaled $657,000 and $112,000 compared to funds awarded in 2012 of $904,000 and $417,000, respectively. Funds awarded from UPL programs during 2013 totaled $2,547,000 as compared to funds awarded in 2012 of $3,325,000.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Interest expense in 2013 of $539,568 decreased 19.7% compared to 2012 expense of $671,645. Nonoperating revenues also include a legal settlement during 2013 for $575,000 and $359,500 for 2012.

Capital Grants and Gifts

The Medical Center occasionally receives both capital and operating grants from various state and federal agencies for specific programs. The Medical Center received approximately $6,900 and $14,500 in capital grants in 2013 and 2012, respectively.

The Medical Center's Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2013, 2012 and 2011, discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2013 and 2012, the Medical Center had approximately $27,897,000 and $28,338,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013 and 2012, the Medical Center purchased new property and equipment costing $2,358,000 and $3,449,000, respectively.

Debt

At September 30, 2013 and 2012, the Medical Center had $14,875,000 and $15,951,000, respectively, in revenue bonds and capital lease obligations outstanding. In 2013, the Medical Center refinanced and paid off the Series 2005C, 2005D, 2005E, 2008 and the 2009 bonds by issuing $11,785,000 in Series 2013A and 2013B bonds. The Medical Center's formal debt issuances and revenue bonds are subject to limitations imposed by state law.

Contacting the Medical Center's Financial Management

This financial report is designed to provide the Medical Center's patients, suppliers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center Administration by telephoning 337.364.0441.

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Balance Sheets
September 30, 2013 and 2012

Assets

	2013	2012 (Restated – *Note 16)*
Current Assets		
Cash and cash equivalents	$ 14,548,633	$ 9,345,778
Restricted cash and cash equivalents – current	1,533,740	3,014,178
Patient accounts receivable, net of allowance; 2013 – $13,833,000; 2012 – $13,769,000	7,202,426	6,450,880
Other receivables	635,272	897,388
Supplies	1,951,088	1,290,419
Prepaid expenses and other	667,027	672,319
Total current assets	26,538,186	21,670,962
Noncurrent Cash and Cash Equivalents		
Held under bond trust indenture	2,163,541	5,695,176
Less amount required to meet current obligations	(1,533,740)	(3,014,178)
	629,801	2,680,998
Capital Assets, Net	27,896,741	28,338,161
Other Assets	375,146	423,798
Total assets	$ 55,439,874	$ 53,113,919

Liabilities and Net Position

	2013	2012 (Restated – *Note 16)*
Current Liabilities		
Current maturities of long-term debt	$ 1,243,653	$ 2,629,208
Accounts payable	2,238,406	2,053,313
Accrued expenses	4,689,739	4,589,462
Estimated amounts due to third-party payers	2,127,993	1,309,434
Total current liabilities	10,299,791	10,581,417
Long-term Debt	13,631,346	13,321,419
Total liabilities	23,931,137	23,902,836
Net Position		
Net investment in capital assets	15,160,955	15,092,641
Restricted expendable	24,328	2,990,068
Unrestricted	16,323,454	11,128,374
Total net position	31,508,737	29,211,083
Total liabilities and net position	$ 55,439,874	$ 53,113,919

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012 (Restated – *Note 16*)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – $17,561,000; 2012 – $17,804,000	$ 53,512,529	$ 51,194,257
Other	5,977,449	6,976,682
Total operating revenues	59,489,978	58,170,939
Operating Expenses		
Salaries and wages	22,951,621	22,575,921
Employee benefits	6,961,342	7,750,160
Purchased services and professional fees	6,881,660	5,994,495
Supplies and other	16,933,628	15,515,018
Insurance	831,042	918,870
Depreciation and amortization	2,625,834	2,440,857
(Gain) loss on sale of property and equipment	174,043	(11,678)
Total operating expenses	57,359,170	55,183,643
Operating Income	2,130,808	2,987,296
Nonoperating Revenues (Expenses)		
Interest income	59,393	52,276
Interest expense	(539,568)	(671,645)
Legal settlement	575,000	329,500
Income from investments in joint ventures	152,053	218,935
Bond issue costs	(86,950)	-
Total nonoperating revenues (expenses)	159,928	(70,934)
Excess of Revenues Over Expenses Before Capital Grants and Gifts	2,290,736	2,916,362
Capital Grants and Gifts	6,918	14,497
Increase in Net Position	2,297,654	2,930,859
Net Position, Beginning of Year, As Previously Reported	-	26,475,682
Cumulative Effect of Change in Accounting Principle (*Note 16*)	-	(195,458)
Net Position, Beginning of Year	29,211,083	26,280,224
Net Position, End of Year	$ 31,508,737	$ 29,211,083

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012 (Restated - *Note 16)*
Operating Activities		
Receipts from and on behalf of patients	$ 50,085,906	$ 50,218,388
Payments to suppliers and contractors	(25,023,500)	(22,099,159)
Payments to employees	(29,712,313)	(30,846,060)
Other receipts, net	9,733,201	6,563,179
Net cash provided by operating activities	5,083,294	3,836,348
Capital and Related Financing Activities		
Repayment of amounts due Iberia Parish under debt agreements	(12,583,333)	(2,249,167)
Proceeds from the sale of capital assets	-	102,118
Proceeds from the issuance of bonds	11,785,000	-
Repayments of capital lease obligations	(277,295)	(378,451)
Interest paid on debt and capital lease obligations	(639,941)	(702,119)
Purchase of capital assets	(2,513,623)	(3,057,130)
Proceeds from legal settlement	575,000	329,500
Payments of bond issue costs	(86,950)	-
Capital grants and gifts	6,918	14,495
Net cash used in capital and related financing activities	(3,734,224)	(5,940,754)
Investing Activities		
Interest income	59,393	52,276
Distributions received from joint ventures	262,757	307,019
Net sales of investments	-	2,630,127
Net cash provided by investing activities	322,150	2,989,422
Increase in Cash and Cash Equivalents	1,671,220	885,016
Cash and Cash Equivalents, Beginning of Year	15,040,954	14,155,938
Cash and Cash Equivalents, End of Year	$ 16,712,174	$ 15,040,954

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Statements of Cash Flows (Continued)
Years Ended September 30, 2013 and 2012

	2013	2012 (Restated – *Note 16)*
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 14,548,633	$ 9,345,778
Restricted cash and cash equivalents	2,163,541	5,695,176
Total cash and cash equivalents	$ 16,712,174	$ 15,040,954
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 2,130,808	$ 2,987,296
Depreciation and amortization	2,625,834	2,440,857
(Gain) loss on disposal of capital assets	174,043	(11,678)
Provision for uncollectible accounts	17,560,769	17,803,670
Changes in operating assets and liabilities		
Patient accounts receivable, net	(18,312,315)	(17,581,499)
Estimated amounts due from and to third-party payers	818,559	(1,198,040)
Accounts payable and accrued expenses	540,909	(240,665)
Other assets and liabilities	(455,313)	(363,593)
Net cash provided by operating activities	$ 5,083,294	$ 3,836,348
Supplemental Cash Flows Information		
Capital asset additions in accounts payable	$ 128,298	$ 283,464
Capital lease obligations incurred for capital assets	$ -	$ 108,764

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Notes to Financial Statements
September 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) is a 101 bed acute care medical center located in New Iberia, Louisiana. The Medical Center is a component unit of Iberia Parish (the Parish). The Parish appoints a nine-member Board of Commissioners who operate the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Parish area.

Basis of Accounting and Presentation

The accompanying financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and parish appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific such as investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2012, cash equivalents consisted primarily of certificates of deposit and money market accounts with brokers. The Medical Center has no cash equivalents at September 30, 2013.

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims. An annual estimated provision is accrued for the self-insured portion of employee health claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investment in Joint Ventures

The Medical Center holds a 20% interest in New Iberia Surgery Center, which provides outpatient surgery services to the community. This investment is carried on the equity method of accounting. The Medical Center also holds a 15% ownership interest in Acadiana Diagnostic Imaging, LLC, which is a provider of imaging services. This investment is accounted for using the cost method.

Patient Accounts Receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Medical Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land improvements	15 – 25 years
Buildings and leasehold improvements	20 – 40 years
Equipment	3 – 20 years

The Medical Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2013	2012
Total interest expense incurred on borrowings for project	$ 48,199	$ 300,569
Interest income from investment of proceeds of borrowings for project	(9,042)	(18,435)
Net interest cost capitalized	$ 39,157	$ 282,134
Interest capitalized	$ 48,199	$ 300,569
Interest charged to expense	539,568	671,645
Total interest incurred	$ 587,767	$ 972,214

Compensated Absences

The Medical Center's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Medical Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Medical Center provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

As an essential government function of the Parish, the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which are approved by the Centers for Medicare and Medicaid Services. Payment under both programs is contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2013, the Medical Center completed the third year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately $769,000, which is included in other revenue within operating revenues in the accompanying statement of revenues, expenses and changes in net position. In 2012, $1,322,000 in revenue was recorded after completing the second year requirements.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.

- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. Outpatient services are paid under either a cost reimbursement methodology or using defined allowable charges. The Medical Center is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor.

During 2013, the Medical Center's net patient service revenue was decreased by approximately $536,000 as a result in changes in estimates to settlements of Medicaid cost reports.

Approximately 56% and 52%, respectively, of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended September 30, 2013 and 2012. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Medical Center's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments in the state of Louisiana. At September 30, 2013, approximately $1,195,000 of the Medical Center's deposits were uninsured and uncollateralized.

Note 4: Patient Accounts Receivable

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2013 and 2012, consisted of:

	2013	2012
Medicare	$ 2,058,509	$ 1,823,592
Medicaid	410,380	304,064
Other third-party payers	3,664,577	3,267,053
Patients	14,901,811	14,825,525
	21,035,277	20,220,234
Less allowance for uncollectible accounts	13,832,851	13,769,354
	$ 7,202,426	$ 6,450,880

Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2013 and 2012, was:

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,474,357	$ -	$ -	$ -	$ 1,474,357
Land improvements	372,935	5,201	(86,372)	-	291,764
Buildings and leasehold improvements	38,954,492	162,171	(885,984)	762,332	38,993,011
Equipment	24,534,442	1,518,066	(2,348,806)	-	23,703,702
Construction in progress	862,805	673,019	-	(762,332)	773,492
	66,199,031	2,358,457	(3,321,162)	-	65,236,326
Less accumulated depreciation	(37,860,870)	(2,625,834)	3,147,119	-	(37,339,585)
Capital assets, net	$ 28,338,161	$ (267,377)	$ (174,043)	$ -	$ 27,896,741

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,474,357	$ -	$ -	$ -	$ 1,474,357
Land improvements	372,935	-	-	-	372,935
Buildings and leasehold improvements	36,101,070	445,533	-	2,407,889	38,954,492
Equipment	23,904,738	749,510	(152,932)	33,126	24,534,442
Construction in progress	1,049,505	2,254,315	-	(2,441,015)	862,805
	62,902,605	3,449,358	(152,932)	-	66,199,031
Less accumulated depreciation	(35,482,507)	(2,440,855)	62,492	-	(37,860,870)
Capital assets, net	$ 27,420,098	$ 1,008,503	$ (90,440)	$ -	$ 28,338,161

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2013 and 2012, consisted of:

	2013	2012
Payable to suppliers and contractors	$ 2,238,406	$ 2,053,313
Payable to employees (including payroll taxes and benefits)	4,179,394	3,912,302
Other	510,345	677,160
	$ 6,928,145	$ 6,642,775

Note 7: Medical Malpractice Claims

The Medical Center has joined together with other providers of health care services to form the Louisiana Hospital Association Medical Malpractice and General Liability Trust Fund, a risk pool (the Pool) currently operating as a common risk management and insurance program for its members. The Medical Center purchases medical malpractice insurance from the Pool under a claims-made policy. The Medical Center pays an annual premium to the Pool for its torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual stop-loss limit between \$70,000 and \$2,000,000 per employee. Commercial stop-loss insurance coverage is purchased for claims in excess of these amounts. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

Activity in the Medical Center's accrued employee health claims liability during 2013 and 2012, is summarized as follows:

	2013	2012
Balance, beginning of year	$ 761,182	$ 470,000
Current year claims incurred and changes in estimates for claims incurred in prior years	2,434,804	4,267,872
Claims and expenses paid	(2,593,256)	(3,976,690)
Balance, end of year	$ 602,730	$ 761,182

Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended September 30, 2013 and 2012:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	$ 15,568,333	$ 11,785,000	$ 12,583,333	$ 14,770,000	$ 1,145,000
Capital lease obligations	382,294	-	277,295	104,999	98,653
Total long-term obligations	$ 15,950,627	$ 11,785,000	$ 12,860,628	$ 14,874,999	$ 1,243,653

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	$ 17,817,500	$ -	$ 2,249,167	$ 15,568,333	$ 2,345,000
Capital lease obligations	651,981	108,764	378,451	382,294	284,208
Total long-term obligations	$ 18,469,481	$ 108,764	$ 2,627,618	$ 15,950,627	$ 2,629,208

Revenue Bonds Payable

Revenue bonds payable consist of the various series of the Iberia Parish, State of Louisiana Hospital Revenue Bonds, as shown below:

Bond Series	Original Issue Amount	Interest Rate	Final Maturity	Balance September 30, 2013	Balance September 30, 2012
Series 2005A	$ 7,900,000	4.15%	May 2016	$ 2,985,000	$ 3,980,000
Series 2005C	$ 4,365,000	3.90%	May 2016	-	2,170,000
Series 2005D	$ 4,500,000	5.75%	May 2016	-	613,333
Series 2005E	$ 2,200,000	4.05%	May 2017	-	1,575,000
Series 2008	$ 2,200,000	4.05%	May 2017	-	1,435,000
Series 2009A	$ 4,400,000	5.30%	May 2024	-	3,870,000
Series 2009B	$ 2,200,000	4.60%	May 2024	-	1,925,000
Series 2013A	$ 8,265,000	2.48%	November 2023	8,265,000	-
Series 2013B	$ 3,520,000	2.24%	November 2023	3,520,000	-
				$ 14,770,000	$ 15,568,333

During 2013, the Series 2013A and 2013B bonds were issued to refinance the Series 2005C, 2005D, 2005E, 2008, 2009A and 2009B bonds at lower interest rates. The bonds are payable in semiannual installments of principal and interest through final maturity. The bonds are secured by the net revenues of the Medical Center, a mortgage on the Medical Center's property and assets restricted under the bond agreement. The bonds are also secured by a pledge of the general revenues of the Parish should the Medical Center's revenues and other security not be sufficient to pay obligations under the bond agreements.

The bond agreements require that certain funds be established to pay debt service on the bonds. Accordingly, these funds are included as restricted expendable assets under bond agreements. The indenture agreement also requires the Medical Center to comply with certain restrictive covenants, including minimum insurance coverage and maintaining a historical debt-service coverage ratio of at least 1.20 to 1.00. The agreements also require the Parish to maintain days cash on hand in excess of 90 days of expense.

The debt service requirements as of September 30, 2013, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2014	$ 1,533,740	$ 1,145,000	$ 388,740
2015	1,544,907	1,195,000	349,907
2016	1,536,958	1,240,000	296,958
2017	1,539,090	1,285,000	254,090
2018 – 2022	7,694,760	6,910,000	784,760
2023 – 2024	3,067,586	2,995,000	72,586
	$ 16,917,041	$ 14,770,000	$ 2,147,041

Capital Lease Obligations

The Medical Center has entered into various lease agreements for equipment, which are accounted for as capital leases. Assets under capital leases at September 30, 2013 and 2012, totaled $3,933,000 for both years, net of accumulated depreciation of $3,963,000 and $3,780,000, respectively. The following is a schedule by year of future minimum lease payments under capital lease, including interest at rates of 5.30% to 6.95%, together with the present value of the future minimum lease payments as of September 30, 2013:

Years Ending September 30,	
2014	$ 100,988
2015	6,496
Total minimum lease payments	107,484
Less amount representing interest	(2,485)
Present value of future minimum lease payments	$ 104,999

Note 10: Operating Leases

Operating leases for medical and office equipment expire in various years through 2018. These leases generally contain renewal options for periods ranging from one to three years and require the Medical Center to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals, plus contingent rentals based on revenues.

Future minimum lease payments at September 30, 2013, were:

2014	$	163,436
2015		163,436
2016		109,200
2017		58,730
2018		26,202
	$	521,004

Minimum future rentals receivable under noncancellable operating leases at September 30, 2013, were:

2014	$	822,691
2015		538,196
2016		297,621
2017		204,228
2018		134,560
	$	1,997,296

Rental expense (income) for all operating leases consisted of:

		2013		2012
Minimum rentals	$	780,355	$	742,642
Sublease rental income		(948,777)		(842,793)
	$	(168,422)	$	(100,151)

Note 11: Pension Plan

Plan Description

The Medical Center contributes to the Parochial Employees' Retirement System (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the state of Louisiana (the State). PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS is comprised of two distinct plans – Plan A and Plan B – with separate assets and benefit provisions. Employees of the Medical Center are members of Plan A. Benefit provisions are established by state law and may be amended only by the State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to PERS at P.O. Box 14619, Baton Rouge, Louisiana, 70898, or by calling 225.928.1361.

Funding Policy

Plan members are required to contribute 9.50% of their annual covered salary and the Medical Center is required to contribute at an actuarially determined rate. The current rate is 16.75% of annual covered payroll for 2013 and 15.75% for 2012. The contribution requirements of plan members and the Medical Center are established and may be amended by the PERS Board of Trustees. The Medical Center's contributions to PERS for the years ended September 30, 2013, 2012 and 2011, were $3,354,000, $3,129,000 and $3,401,000, respectively, which equaled the required contributions for each year.

Note 12: Management Company

The Medical Center has a management contract with HealthTech Management Services (HealthTech), previously Brim Healthcare, Inc. In addition to annual management fees, the contract requires payment for the salaries and benefits of personnel provided by HealthTech. Total fees paid to HealthTech during the years ended September 30, 2013 and 2012, were approximately $989,000 and $785,000, respectively. The current contract expires September 30, 2017.

Note 13: Significant Estimates and Contingencies

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self-insured Employee Health Care

Estimates related to the accrual for self-insured employee health claims are discussed in *Note 8*.

Note 14: Related Party Transactions

The Medical Center leases office space to New Iberia Surgery Center and Acadiana Diagnostic Imaging, LLC under operating leases with expiration dates of November 30, 2016 and May 31, 2017, respectively. Both leases have renewal options upon expiration. Amounts received under the lease agreements for the years ended September 30, 2013 and 2012, totaled $64,000 and $62,500, respectively.

The Iberia Parish Council, by a resolution adopted in November 2006, provides the Medical Center use of a building in Jeanerette for the purpose of providing rural health clinic services. The resolution expires October 31, 2015. Rent expense recorded for the years ended September 30, 2013 and 2012 totaled $3,100 and $3,600.

The Medical Center purchased diagnostic imaging services from Acadiana Diagnostic Imaging, LLC during 2013 and 2012 totaling $88,000 and $91,400, respectively.

Note 15: Health Care Reform

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Louisiana has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Medical Center's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is anticipated that it will have a negative impact on the Medical Center's net patient service revenue. Additionally, it is possible that the Medical Center will experience payment delays and other operational challenges during PPACA's implementation.

Note 16: Change in Accounting Principle

In 2013, the Medical Center adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and recognize certain items that were previously reported as assets and liabilities as expenses and revenues. An adjustment of $195,458 applicable to 2011 and prior has been included in the restated 2012 beginning net position balance to reflect the removal of debt issuance costs which were previously capitalized as an asset, and amortized over the term of the respective bond issuance. This restatement increased previously reported change in net position by $21,316 as a result of removing amortization expense for the year ended September 30, 2012.

Additionally, in accordance with GASB Statement No. 65 the Medical Center expensed a total of $86,950 for bond issue costs related to the issuance of the Series 2013A and 2013B bonds for the year ended September 30, 2013.

Other Information

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Schedule of Insurance Policies
September 30, 2013

Covered Risks	Insurer	Coverage Description	Coverage Amount	Expiration Date
Malpractice and General Liability	Louisiana Hospital Association	Professional Liability	$ 1,500,000	11/1/2013
		Umbrella	4,500,000	11/1/2013
		General Liability	2,000,000	11/1/2013
Louisiana Patient Compensation	Louisiana Hospital Association	Louisiana Patient Compensation	1,000,000	11/1/2013
Professional Liability	Louisiana Hospital Association	Physicians and Surgeons	300,000	11/1/2013
Workers' Compensation	Louisiana Hospital Association	Coverage A	Statutory	1/1/2014
		Coverage B	1,000,000	1/1/2014
Directors, Officers and Employment Practices	Regions/Traveler's	Liability	3,000,000	1/10/2014
Property	Regions/CNA	Property Damage	115,000,000	7/1/2014
Crime	Regions/Traveler's	Crime	250,000	7/1/2014
Auto	Fireman's Fund	Liability	1,000,000	12/1/2013
		Uninsured Motorists	1,000,000	12/1/2013

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Schedule of Board Members

September 30, 2013

Name	Office	Residence
James B. Falterman, Jr., M.D.	Chairman	New Iberia, Louisiana
Mr. David W. Groner	Vice-Chairman	New Iberia, Louisiana
Mrs. Rachel Gonsoulin	Member	New Iberia, Louisiana
Larry Nelson, M.D.	Member	New Iberia, Louisiana
Mr. Ernest Wilson	Member	New Iberia, Louisiana
Mr. Burton Cestia, Jr.	Member	New Iberia, Louisiana
Mr. Larry Hensgens, Jr.	Member	New Iberia, Louisiana
Mr. Frederick Metz, Jr.	Member	New Iberia, Louisiana
Mr. Leonard Minvielle	Member	New Iberia, Louisiana

BKD LLP
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
New Iberia, Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center), which comprise the balance sheet as of September 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated February 27, 2014, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Medical Center's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matters

We noted certain matters that we reported to the Medical Center's management in a separate letter dated February 27, 2014.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
February 27, 2014

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Schedule of Findings and Responses
Year Ended September 30, 2013

Reference Number	Finding

No matters are reportable.

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Summary Schedule of Prior Year Audit Findings
Year Ended September 30, 2013

Reference Number	Finding

No matters are reportable.

BKD LLP
CPAs & Advisors

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Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
New Iberia, Louisiana

In planning and performing our audit of the financial statements of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana, (d/b/a Iberia Medical Center) (the Medical Center) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Medical Center's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Information Technology (IT)

During the transition from the prior IT Manager to the current IT Manager, there were gaps in controls related to offsite back-ups and termination emails. Back-ups were performed every month during the year; however, those tapes were not submitted to outside storage, nor certified by the third party for three months during the year. We would suggest that back-up tapes be submitted to offsite storage to prevent the risk of loss. Additionally, during this transition period, monthly termination emails were not submitted from the Human Resource Department to the IT Manager for approximately three months. We would suggest that all termination emails be sent from the Human Resource Department to the IT Manager on a monthly basis so that access is properly terminated to prevent unauthorized access.

Collateralization of Deposits and Investments

The state of Louisiana requires that a deposit of public funds shall be secured by collateral or assets of the total value of an amount not less than the amount of the deposit of public funds. At September 30, 2013, the Medical Center became aware that deposits held at one bank were undercollateralized by approximately $1.2 million. After notifying the bank, the bank pledged additional collateral against the deposits. In the event of the failure of the bank, the Medical Center could face a loss of a material amount of deposits that were not collateralized. We suggest management periodically review collateral amounts on total deposits to ensure that all deposits are fully secured by collateral or assets of the bank.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments, which in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Reduction in the allowance for contractual adjustments
- Reduction of deferred financing fees recorded as a retrospective adjustment for the early adoption of GASB No. 65

The net impact of the entries recorded was an increase in net position of $268,000.

Proposed Audit Adjustments Not Recorded

- Reclassification of outstanding checks over a year old to accounts payable
- Increase in supplies expense for change in 2012 supplies balance
- Reduction of self-insurance for employee health accrual

The net impact of all proposed audit adjusting entries not recorded, including proposed audit adjusting entries not detailed above, was an increase in net position of approximately $82,000.

We recommend management review the causes of these differences to ensure future adjustments are not required and that any future differences for unrecorded items do not become material in future periods.

This communication is intended solely for the information and use of management, the Board of Commissioners and others within the Medical Center, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 27, 2014

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February 27, 2014

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14241 Dallas Parkway, Suite 1100
Dallas, Texas 75254

We are providing this letter in connection with your audits of our financial statements as of and for the years ended September 30, 2013 and 2012. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated October 1, 2013, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of meetings of the governing body held through the date of this letter.

   (e) All significant contracts and grants.

   (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets, liabilities or net position.

8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

9. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Medical Center, received in communications from employees, customers, regulators, suppliers, or others.

11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

12. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial statements.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the Medical Center is contingently liable.

13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

15. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. We have also informed you all of known circumstances that could jeopardize the Medical Center's participation in the Medicare or other government health care programs. We believe that all

investigations will have satisfactory results and that the Medical Center's participation in Medicare and Medicaid programs will not be impacted.

16. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables.

    (b) Reducing obsolete or excess inventories to estimated net realizable value.

    (c) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.

    (d) Purchase commitments in excess of normal requirements or above prevailing market prices.

17. Except as disclosed in the financial statements, we have:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.

18. With respect to the Medical Center's possible exposure to past or future medical malpractice assertions:

    (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

    (b) All known incidents have been reported to the appropriate medical malpractice insurer.

    (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.

    (d) Management does not expect any claims to exceed malpractice insurance limits.

19. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

20. With regard to deposit and investment activities:

    (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.

    (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

    (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

21. With respect to any nonattest services you have provided us during the year, including assistance with drafting the financial statements, cost report preparation, and arbitrage calculations:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

22. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

23. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

24. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

25. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.

26. We have a process to track the status of audit findings and recommendations.

27. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

28. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

29. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

30. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

31. With regard to cost reports filed with Medicare, Medicaid or other third parties:

    (a) All required reports have been properly filed.

    (b) Management is responsible for the accuracy and propriety of those reports.

    (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.

    (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

(e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

(f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.

32. With regard to Medicare and Medicaid Electronic Health Record (EHR) incentive payment program:

(a) All required attestation reports have been properly filed.

(b) Management is responsible for the accuracy and propriety of those reports.

(c) All required core objectives have been met or we are reasonably assured of meeting them

(d) The required number of menu set objectives have been met or we are reasonably assured of meeting them

(e) We are not aware of any issues related to meaningful use as defined under the EHR Incentive Program that would make the Medical Center not eligible to receive the incentive payments, including payments already received

Parker Templeton, Chief Executive Officer

Stephanie Kirk, Chief Financial Officer

Iberia Medical Center
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	26,538,186	65,812	26,603,998	0.25%
Non-Current Assets	28,901,688	(39,352)	28,862,336	-0.14%
Current Liabilities	(10,299,791)	125,076	(10,174,715)	-1.21%
Non-Current Liabilities	(13,631,346)		(13,631,346)	
Current Ratio	2.577		2.615	1.47%
Total Assets	55,439,874	26,460	55,466,334	0.05%
Invest in CA, net of Debt	(15,160,955)		(15,160,955)	
Restricted Net Position	(24,328)		(24,328)	
Unrestricted Net Position	(16,323,454)		(16,323,454)	
Total Net Position	(31,508,737)		(31,508,737)	
Operating Revenues	(59,489,978)	56,681	(59,433,297)	-0.10%
Operating Expenses	57,359,170	(138,391)	57,220,779	-0.24%
Nonoperating Revenues (Exp)	(166,846)		(166,846)	
Change in Net Position	(2,297,654)	(81,710)	(2,379,364)	3.56%

Client: Iberia Medical Center
Period Ending: September 30, 2013

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J) Projected (P)	Assets Current DR (CR)	Assets Non-Current DR (CR)	Liabilities Current DR (CR)	Liabilities Non-Current DR (CR)	Operating Revenues DR (CR)	Operating Expenses DR (CR)	Nonoperating Revenues (Exp) DR (CR)	Net Position (Beg. of year) DR (CR)	Invest in CA, net of Debt DR (CR)	Restricted Net Position DR (CR)	Unrestricted Net Position DR (CR)	Net Effect on Following Year: Change in Net Position DR (CR)	Net Effect on Following Year: Net Position DR (CR)
PY reversals - NONE			0	0	0	0	0	0	0	0	0	0	0	0	0
To reclass outstanding checks over a year old to accounts payable		F	69,682	0	(69,682)	0	0	0	0	0	0	0	0	0	0
	Accounts Payable				(69,682)									N/A	N/A
	Cash		69,682												
To post late charges to accounts receivable related to FY13 posted in FY14 and the net effect from prior year FY12 AR posted in FY13		F	29,190	0	0	0	(29,190)	0	0	0	0	0	0	29,190	(29,190)
	Accounts Receivable		29,190												
	Net Patient Service Revenue						(29,190)							29,190	(29,190)
To adjust inventory expense for errors in prior year inventory balances		F	0	0	0	0	0	92,362	0	(92,362)	0	0	0	0	0
	Net Position									(92,362)				N/A	N/A
	Supplies Expense							92,362							
To reduce employee health accrual to properly reflect payment trends		J	0	0	247,569	0	0	(247,569)	0	0	0	0	0	247,569	(247,569)
	Employee Health Accrual				247,569										
	Employee Health Expense							(247,569)						247,569	(247,569)
To adjust LTAC windows accelerated depreciation to properly reflect net book value considering replacement date of February 2014		J	0	(39,352)	0	0	0	16,816	0	22,536	0	0	0	(39,352)	39,352
	Depreciation Expense							16,816						(39,352)	39,352
	Net Position									22,536					
	Fixed Assets			(39,352)											
To reclass credit memo in accounts payable to other receivables		F	52,811	0	(52,811)	0	0	0	0	0	0	0	0	0	0
	Other Receivables		52,811												
	Accounts Payable				(52,811)										
To adjust estimate for UPL receivables as of year end		J	(85,871)	0	0	0	85,871	0	0	0	0	0	0	(85,871)	85,871
	Other Revenue						85,871							(85,871)	85,871
	UPL Receivable		(85,871)												
Total passed adjustments			65,812	(39,352)	125,076	0	56,681	(138,391)	0	(69,826)	0	0	0	151,536	(151,536)

Impact on Change in Net Position	**(81,710)**
Impact on Net Assets	**0**

Iberia
MEDICAL CENTER
2315 East Main Street • New Iberia, LA 70560
P.O. Box 13338 • New Iberia, LA 70562-3338
phone: 337.364.0441
www.iberiamedicalcenter.com

March 11, 2014

Office of Legislative Auditor
Attention: Mr. Thomas H. Cole
1600 North Third
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Hospital Service District No. 1 of Iberia Parish, d/b/a Iberia Medical Center
September 30, 2013 Financial Statement Audit Comments Action Plan

Dear Mr. Cole:

Please find attached our corrective action plan for Management Letter deficiencies that were a component of our September 30, 2013 financial statement audit. Our response includes a brief summary of the deficiencies, the Medical Center personnel that are responsible for implementing corrective action, the actions we intend to take, the date by which those will happen and specific steps/procedures that we will complete.

Should you have any additional questions, please contact me.

Sincerely,

Stephanie Kirk

Stephanie Kirk
Chief Financial Officer

Hospital Service District No. 1 d/b/a Iberia Medical Center
Corrective Action Plan

Finding Description	Responsible Personnel	Corrective Action Taken or To Be Taken	Date Corrective Action Will be Completed	Specific Steps/Procedures
12-1 Access Controls - Access to key transaction modules are assigned with a single switch.	Ross Leleux, IT Director, Stephanie Kirk, CFO	Review of user access by the IT Director and CFO.	Ongoing	The IT Director will review user access privileges each month and the CFO will review the system access logs quarterly.
12-2 Segregation of Duties - Due to system limitaions and size of departments, single individuals are able to both initiate and record various transactions within the Revenue Cycle and Payroll departments.	Amy Gaudet, Rev Cycle Director, Department Directors, Stephanie Kirk, CFO	Revenue Cycle - Review of adjustments by the CFO. Payroll - Review of employee additions by department directors and review of payroll change logs quarterly by CFO.	Ongoing	Revenue Cycle - All adjustments >$10,000 are reviewed by the CFO each month. Also, management selects random adjustments less than the mandatory review threshold and reviews the related support for each. Payroll - Department directors review employee additions each pay period for appropriateness. In addition, the CFO reviews payroll change logs quarterly.
12-3 Accounts Payable - Invoices received after year end were not properly recorded as expenses or assets with a corresponding liability.	Amy Legendre, Controller Stephanie Kirk, CFO	All invoices will be received by the Accounting Department to ensure that all are recorded in the proper period.	Ongoing	The controller will also review AP report in the subsequent month during month end close to ensure that all expenses or assets are recorded in the proper period.
12-4 Investment in Joint Venture - Adjustment of investment in New Iberia Surgery Center to center's financial statements	Amy Legendre, Controller Stephanie Kirk, CFO	Ensure that the hospital's investment in New Iberia Surgery Center reflects the NISC financial statements.	March 31, 2013	Will request financial statements from NISC to ensure that the investment in joint ventures is properly reported on the hospital financial statements.
12-5 Self Insurance Liability - Adjustment to reduce accrual of health insurance claims to be paid.	Amy Legendre, Controller Stephanie Kirk, CFO	Ensure that the liability on the financial statements properly reflects the claims outstanding.	February 28, 2013	Controller will use the claims lag report to ensure that the liability recorded on the books is consistent with claim payment history.
12-6 Cost Report Liability - Adjustment to reduce liability of amount due to/from the Medicare and Medicaid programs.	Amy Legendre, Controller Stephanie Kirk, CFO	Ensure that the amounts due to/from the Medicare & Medicaid programs are properly stated.	February 28, 2013	Controller will reconcile the liability on the financial statements to properly reflect the amounts due to/from the Medicare & Medicaid programs as cost reports are settled.
12-7 Bond Arbitrage Costs - Adjustment to reduce accrual of bond arbitrage expense.	Amy Legendre, Controller Stephanie Kirk, CFO	Ensure that the liability on the financial statements properly reflects amount due related to bond arbitrage.	February 28, 2013	Controller will adjust amounts due related to bond arbitrage as notified.
13-1 Information Technology (IT) - Back-up tapes to be stored off-site and receipt of email for terminated employees.	Vance Robinson, IT Director Stephanie Kirk, CFO	Ensure that IT staff sends monthly backup tape to CPSI for verification each month.	Ongoing	IT staff will set reminder on IT calendar to send tape off to CPSI each month. Verification Letter is kept by IT Manager to validate the process month to month.
13-2 Collateralization of Deposits and Investments - Periodic review of collateral amounts to ensure that all deposits are fully secured by collateral or assets of the bank.	Amy Legendre, Controller Stephanie Kirk, CFO	Ensure that all deposits are properly secured by the financial institution that holds the accounts.	Ongoing	Controller will review the balances of the collateral amounts each month when reconciling the investment accounts.
13-3 Audit Adjustments - Review the causes of passed audit adjustments to ensure unrecorded items do not become material in future periods.	Amy Legendre, Controller Stephanie Kirk, CFO	Review audit passed adjustments to ensure that unrecorded items do not become matierial.	Ongoing	Controller will review the passed audit adjustments and incorporate any necessary calculations into the monthly process to ensure that all items are properly recorded in future periods.